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SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER NOVEMBER 2, 2007 ISSUE

¶1. (U) Summary. This is Volume 7, issue 44 of U.S. Embassy Pretoria's South Africa Economic News weekly newsletter.

Topics of this week's newsletter are:
- Treasury Forecasts Slower Economic Growth
- Skills Poaching Is Asset Stripping - Manuel
- SA's Cheap Power May Attract $3.8 billion Aluminum Smelter
- Cape Town Convention Center Yields Returns
- Electricity Shortages Over Next Five Years
- Eskom Imposes Load-Shedding Again
- Westinghouse Acquisition Aligned to Localization Effort

End Summary.

Treasury Forecasts Slower Economic Growth

¶2. (U) According to the National Treasury's Medium Term Budget Policy Statement, the South African economy would grow by 4.9% this year, slowing to 4.5% in 2008 but increasing to 4.8% in 2009 and 5.3% in 2010. National Treasury said the expected lower pace of economic expansion in 2008 reflects the impact of tighter monetary policy and slower growth in developed markets as a result of the sub-prime mortgage crisis in the U.S. The South African Reserve Bank has increased interest rates by 350-basis points since June 2006, in a bid to control inflation. According to the National Treasury, the deficit on the current account will likely widen from 6.5% in 2006 to 6.7% in 2007, 6.9% in 2008, 7.7% in 2009, and 7.8% in 2010. It said South Africa's investment needs and the capital imports required to support infrastructure expansion would likely exceed the economy's ability to raise exports, resulting in a "relatively large" current account shortfall. National Treasury said in the event of sharply slower world growth or a reversal of capital inflows to emerging markets, South Africa's high current account deficit and inflationary pressures could expose the domestic economy to heightened risk. "Future growth needs to reflect a much stronger expansion in South African exports and production. Improved export growth alongside the accumulation of foreign reserves will help to reduce the economy's exposure to international financial risks," National Treasury said. (Business Day, October 30, 2007)

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Skills Poaching Is Asset Stripping - Manuel

¶3. (U) South African Finance Minister Trevor Manuel, speaking at the Institute of International Finance in Washington D.C., complained that advanced countries were asset-striping less developed countries of their human skills. He particularly criticized the migration of health care workers to developed countries, resulting in significant shortages in Africa. Manuel complained that South Africa had become a training ground for developed countries. Manuel returned to the theme of advanced country asset stripping in his Medium Term Budget Policy Statement speech on October 30. In the context of a comment about global skills shortages, he said, "Last week, the European Union announced its intent to recruit 20 million skilled foreigners over the next twenty years. I believe this kind of parasitic conduct of nations is wrong." (Business Report, October 22, 2007)

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SA's Cheap Power May Attract $3.8 billion Aluminum Smelter
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¶4. (U) National Aluminum (Nalco), India's second largest aluminum producer, is considering the construction of a $3.8 billion, 500,000 ton smelter in South Africa to benefit from low-cost electricity. Nalco is looking at a number of countries, but the chairman said that the cost of the plant would halve if the company got power supply from the SAG, rather than having to build its own power plant in other locations. India's Minister of Mines and South African Department of Minerals and Energy Director General Sandile Nogxina called for greater collaboration between the two countries. In a separate development, BHP Billiton is considering a $3 billion plan to build its largest aluminum smelter in the DRC. Given Eskom's growing electricity shortages and the SAG's desire to attract energy intensive investments, South Africa's electricity prices will have to increase in order to finance additional power plants. The regulator is taking a go-slow approach to approving price changes.

(Business Report, October 23, 2007)

Cape Town Convention Center Yields Returns

¶5. (U) A study conducted jointly by Barry Standish of the University of Cape Town and independent economic modeler Antony Boting has shown that the Cape Town International Convention Center (CTICC), established in 2003, is making significant contributions to the economy and society. The CTICC has contributed over R2.4 billion ($370 million) to the GDP in 2006-2007, according to the report. The CTICC has been used to host international meetings, private, public and organizational gatherings, including occasional private weddings. CTICC Managing Director Dirk Elzinga stated that the center has hosted over 509 conferences in the past year, 46 of which were international, collectively bringing over 45,576 international delegates to Cape Town. Standish and Boting's report has also indicated that the CTICC promotes "induced" tourism, because delegates who had been attending events at the center tend to extend their stay in Cape Town after the conferences, or they return as leisure tourists at a later stage. This type of tourists or business tourists accounts for 30 - 40% of the CTICC's economic effect, while visiting delegates' spending reflects 50%. In terms of the report, the contribution is the most important and comprehensive measure of the center's macroeconomic impact. The largest international conference hosted by the CTICC was the 19th World Diabetes Congress held in December 2006, which attracted over 12,300 delegates. CTICC employs 3,796 people directly and an additional 5,343 people indirectly, a significant contribution in the effort to mitigate unemployment. (Business Day, October 29, 2007)

Electricity Shortages Over Next Five Years

¶6. (U) State electricity supplier Eskom CEO Jacob Marega qualifies the scale of recent electricity interruptions as unprecedented in South Africa. Marega said the reserve margin gap between available

capacity and demand had declined from 25% in 2001 to 8-10% now. He warned that the power system would be susceptible to supply interruptions over the next five years until Eskom is able to bring on a new base-load power station. Marega implicitly blamed the government for failing to plan for new plants in time. He attributed recent load-shedding and outages to a convergence of planned maintenance outages, technical problems that led to unplanned outages, load losses in a number of power stations, and unanticipated demand due to cold weather. Marega emphasized that the low reserve margin rendered the system vulnerable to problems. He called for greater attention to demand-side management measures to help mitigate the slim margin. Marega appealed to South African citizens to assist by conserving energy. (Sunday Times, October 21, 2007)

Eskom Imposes Load-Shedding Again

¶7. (U) Eskom imposed another round of load-shedding (rolling, unwarned black-outs) last week as it faced an electricity shortage
Qunwarned black-outs) last week as it faced an electricity shortage
due to cold weather, seasonal scheduled maintenance (2,700 MW), unscheduled shutdowns of some domestic generation units, and the shutdown of a key supply unit in Mozambique, normally providing 1,500 MW. Eskom said it had to use all its emergency resources, including gas turbines and buying back power from large industrial users. Eskom "exhausted" its load-shedding agreements with major users, particularly BHP Billiton's two aluminum smelters in Richards Bay. BHP Billiton said that it had received power reduction requests from Eskom every day for the past three weeks. Eskom called for people to practice conservation in their electricity consumption. The Department of Minerals and Energy has started a conservation advertisement campaign. (Business Report, October 28, 2007)

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Westinghouse Acquisition Aligned to Localization Effort
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¶8. (U) Westinghouse Regional VP for South Africa Rita Bowser

announced that the acquisition of South Africa's IST Nuclear (ISTN) should be concluded later this week, materially increasing the domestic footprint of the U.S. company. Bowser said the purchase is aimed to position Westinghouse for bidding on the first tranche of Eskom's new nuclear build, which is targeted to total 20,000 MW over the next two decades. Westinghouse aims to respond to the South African Government's stated objective of seeking to build local nuclear-industry capacity around Eskom's multibillion dollar nuclear power program. In addition, Bowser argued that Westinghouse's modular design of 1,100 MW units would be advantageous and also promote localization of suppliers. The name ISTN will be changed to Westinghouse Electric Company South Africa as soon as the acquisition is complete. (Engineering News, October 30, 2007)

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